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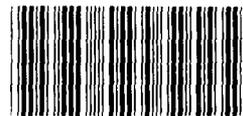
GAO

Report to the Subcommittee on
Employment and Housing, Committee on
Government Operations, House of
Representatives

December 1987

ADP INTERNAL CONTROLS

Actions to Correct System Weaknesses for Federal Employees' Compensation



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United States
General Accounting Office
Washington, D.C. 20548

**Information Management and
Technology Division**

B-229282

December 22, 1987

The Honorable Tom Lantos
Chairman, Employment and Housing
Subcommittee
Committee on Government Operations
House of Representatives

The Honorable Joseph J. DioGuardi
Ranking Minority Member, Employment
and Housing Subcommittee
Committee on Government Operations
House of Representatives

This report responds to your April 27, 1987, request that we determine whether the Employment Standards Administration is effectively identifying, reporting, and correcting material weaknesses in its automated systems used to administer the Federal Employees' Compensation Act.

We found that the Employment Standards Administration for the most part is complying with the Federal Managers' Financial Integrity Act, which requires material weaknesses to be properly identified, reported, and corrected. The report contains recommendations to further strengthen the Employment Standard Administration's automated administrative controls, automated security, and process for identifying and correcting automated material weaknesses in the Federal Employees' Compensation program.

As arranged with your office, we are sending copies of this report to the Secretary of Labor. Unless you publicly announce the contents of this report, we plan no further distribution of it until 30 days from its issue date. We will then send copies to the Chairmen, Senate and House Committees on Appropriations, and House Committee on Government Operations; Director, Office of Management and Budget; and other interested parties; and will make copies available to others upon request.

Ralph V. Carlone
Director

ADP weaknesses. However, GAO did identify ways to strengthen the process for identifying and correcting material ADP weaknesses in the Federal Employees' Compensation Act systems.

Principal Findings

Administrative Controls Could Be Further Strengthened

The Employment Standards Administration has made progress in correcting its administrative control weaknesses. However, the automated medical fee schedule could be expanded for additional control. For example, fees for pharmacies and hospitals, which accounted for about 42 percent of medical billings in 1986, are not included. While Federal Employees' Compensation Act officials have not explored the feasibility of expanding the fee schedule to include such providers as pharmacies and hospitals, another agency—the Health Care Financing Administration—uses automated maximum allowable charge schedules to control medical costs for the most frequently used prescription drugs and all inpatient services. (See pp. 13 to 18.)

Procedures Will Not Improve ADP Security Unless Properly Implemented

The Employment Standards Administration plans to establish agency-wide ADP security procedures by December 1987 to correct long-standing ADP security weaknesses. Yet, GAO and the Inspector General of the Department of Labor found that existing security procedures to control access to Federal Employees' Compensation Act payment systems were not being followed. For example, GAO found that contractors without security clearances were actively involved in developing, operating, and maintaining these payment systems in violation of existing policies. Until these security weaknesses are corrected, Federal Employees' Compensation Act systems may be vulnerable to improper payments with little likelihood of detection. (See pp. 19 to 24.)

Progress Is Being Made to Replace Federal Employees' Compensation Act Systems

The Employment Standards Administration reported that a single, integrated ADP system to replace the existing Federal Employees' Compensation Act systems is needed to correct reported weaknesses in accounting for payments, billings, and debt collections. It is taking positive steps to improve its contractor oversight and systems development methodology, and is addressing these weaknesses which were identified in Labor's Office of Inspector General and GAO's audit reports of previous, unsuccessful attempts to replace the systems. (See pp. 25 to 28.)

had been properly corrected with the existing fee schedule and indicated it does not plan to conduct a feasibility study to determine whether the medical fee schedule can be expanded. (See ch. 2 and app. II.)

In evaluating Labor's comments, GAO found that by limiting its interpretation of the medical fee schedule material weakness to six types of authorized providers of medical services and procedures, Labor was inconsistent with the broader description of this weakness as discussed during congressional hearings and in the progress reports related to the hearings. Labor disagreed with the feasibility of using Health Care Financing Administration price limits that are described in this report. GAO did not recommend that they be used by Labor. Rather, GAO provided these price limits only as examples of how automated controls could be established.

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Executive Summary

Purpose

Government agencies have a specific obligation under the Federal Managers' Financial Integrity Act of 1982 to reduce fraud, waste, and abuse by improving their accounting and internal control systems. This act requires that agencies report to Congress any material weaknesses identified during mandatory, annual internal control evaluations, and their plans for correcting those weaknesses. At the request of the Chairman and the Ranking Minority Member of the Employment and Housing Subcommittee, House Committee on Government Operations, GAO examined the progress made by the Department of Labor's Employment Standards Administration to comply with the Financial Integrity Act by ensuring that its Federal Employees' Compensation Act automated systems contain adequate internal controls.

Specifically, GAO was asked to determine whether the Employment Standards Administration (1) is making progress in correcting material automated data processing (ADP) weaknesses reported by the Department of Labor, (2) has identified all its material ADP weaknesses, and (3) has an effective process in place for identifying and correcting ADP internal control weaknesses.

Background

The Federal Employees' Compensation Act ADP systems are used to compensate federal employees or their dependents when these employees are injured or killed on the job, or contract a work-related occupational disease. Payments can be made to employees, their medical providers, or their dependents. The systems track and account for these payments and bill the employing agency for payments made to the claimant's case. In fiscal year 1986, these systems made approximately \$1 billion in payments.

Between fiscal years 1983 and 1985 the Department of Labor, in accordance with the Financial Integrity Act, identified material ADP weaknesses in the Federal Employees' Compensation Act automated systems, and scheduled actions for correcting them.

Results in Brief

The Employment Standards Administration has made progress in correcting reported material ADP weaknesses in the areas of administrative controls over claims, ADP security, accounting, billings, and debt collection. However, additional actions are needed, such as determining the feasibility of expanding the automated medical fee schedule and completing a replacement computerized system, before some of these weaknesses are fully corrected. GAO did not identify any unreported material

No Additional Material ADP Weaknesses Were Identified

During its review, GAO did not identify additional material ADP weaknesses that it believed should have been reported. The ADP material weaknesses reported by Labor for the Federal Employees' Compensation Act program encompassed the specific weaknesses identified by GAO. (See p. 29.)

Additional Actions Could Benefit Financial Integrity Act Review Process

The Employment Standards Administration's process for identifying and correcting ADP weaknesses generally complies with guidance from the Office of Management and Budget and the Department of Labor. However, contrary to this guidance, the Employment Standards Administration closed or planned to close material ADP weakness cases before verifying that the weaknesses had been properly corrected. (See pp. 30 to 32.)

The Employment Standards Administration's Financial Integrity Act officials made only limited use of the results of accountability reviews at Federal Employees' Compensation Act district offices. These reviews were cited by Labor as a means to measure the effectiveness of internal controls and compliance with the Financial Integrity Act. (See pp. 32 to 36.)

Recommendations

GAO recommends that the Secretary of Labor require the Assistant Secretary for Employment Standards Administration to (1) reopen the corrective action regarding the automated medical fee schedule and determine the feasibility of expanding this schedule; (2) ensure that ADP security procedures are followed, and (3) improve the process for identifying and correcting material weaknesses. (See pp. 16, 24, and 35.)

Additional recommendations are contained in this report to correct specific security weaknesses in the Federal Employees' Compensation Act ADP systems. (See p. 24.)

Agency Comments

The Department of Labor concurred with all but one of GAO's recommendations and described reasonable actions to implement them. Labor did not concur with GAO's recommendation to reopen the corrective action on the medical fee schedule. Labor stated that GAO had (1) inappropriately redefined the material weakness that led to the establishment of the medical fee schedule by including other authorized providers of medical services and procedures, and (2) proposed infeasible solutions for expanding the schedule. Labor concluded that the material weakness

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Abbreviations

ADP	automated data processing
ESA	Employment Standards Administration
FECA	Federal Employees' Compensation Act
GAO	General Accounting Office
IMTEC	Information Management and Technology Division
OMB	Office of Management and Budget

Introduction

Since the passage of the Federal Managers' Financial Integrity Act of 1982 (31 U.S.C. 3512), government agencies have been required to increase emphasis on reducing fraud, waste, and abuse by improving management of federal operations and by strengthening their accounting and internal control systems. At the end of each calendar year beginning December 31, 1983, agencies must report any material weaknesses,¹ including automated data processing (ADP) weaknesses, that they have identified during mandatory, annual evaluations, as well as their plans and schedule for correcting those weaknesses. In addition, agencies are also required to report on whether their accounting systems conform with GAO's principles, standards, and related requirements. This report examines the Employment Standards Administration's (ESA) progress in complying with the act, with regard to its Federal Employees' Compensation Act (FECA) automated systems.

ESA Mission, Organization, and Internal Control Responsibilities

FECA, as amended (5 U.S.C. 8102), authorizes workers' compensation benefits for federal employees with job-related injuries or diseases. The FECA program is administered by the Assistant Secretary for ESA, Department of Labor. Two offices in ESA have responsibility for ensuring that the program has adequate internal controls and accounting systems. The first, the Office of Workers' Compensation Programs, administers the program through a FECA national office. The FECA national office develops policies and procedures, and 13 FECA district offices approve claims, determine benefit levels, authorize payments, and monitor claims to ensure continued eligibility for benefits. The second office responsible for internal controls, the Office of Management, Administration, and Planning, provides central support services, including ADP support, to FECA and other program components at ESA's national office in Washington, D.C., and to Regional Administrators in the field. This office is responsible for the development and implementation of a program to detect and prevent waste, fraud, and abuse, and to improve ESA's internal controls.

Payments to FECA claimants and medical providers are made through the Federal Employees' Compensation fund, which the Office of Workers'

¹Reports from Congress and GAO have identified factors that should be considered when determining whether a weakness is material. (See Implementing the Federal Managers' Financial Integrity Act—Three Years Later, 42nd report, Committee on Government Operations, August 5, 1986; Implementation of the Federal Managers' Financial Integrity Act: First Year, GAO/OCG-84-3, August 24, 1984; and Financial Integrity Act: The Government Faces Serious Internal Control and Accounting Systems Problems, GAO/AFMD-86-14, December 23, 1985.) These factors include a loss or potential loss of resources that could impair an agency's fulfillment of its mission, could create adverse publicity or embarrassment for the agency, or could be of importance to the public or third parties.

Compensation Programs manages and in most cases replenishes through billings charged back to the claimants' agencies. During chargeback year 1986—July 1985 through June 1986—the Office of Workers' Compensation Programs reported that it paid about \$1 billion in payments, consisting of about \$169 million for medical expenses and about \$856 million for compensation benefits.

In its Financial Integrity Act reports for fiscal years 1983 through 1985, ESA identified five material ADP weaknesses. Labor reported that:

- In 1983, administrative controls for the FECA program needed to be modified to prevent fraudulent provider claims.
- In 1984, FECA's compensation payment system had improper accounting for certain transactions.
- In 1985, FECA's debt collection activities, FECA chargeback billings, and ESA-wide ADP security were inadequate.

Corrective actions were planned and scheduled for each of these weaknesses. Corrective actions were identified to improve administrative controls that prevent fraudulent provider claims. In addition, ESA planned to correct its ADP security weaknesses through the issuance of ADP security policies and procedures. Finally, the development of a single, integrated FECA automated system was planned to improve FECA's accounting, debt collection, and chargeback billing activities.

Objectives, Scope, and Methodology

At the request of the Chairman and the Ranking Minority Member, Employment and Housing Subcommittee, House Committee on Government Operations, we examined the progress made by ESA in complying with the Financial Integrity Act's requirement that its FECA automated systems provide adequate ADP internal controls. Specifically, we were asked to determine whether ESA

- is making progress in correcting material ADP internal control weaknesses reported by Labor under the Financial Integrity Act,
- has identified all its existing material ADP weaknesses, and
- has an effective process for identifying and correcting material ADP weaknesses.

To determine ESA's progress in correcting reported material ADP weaknesses for the FECA program, we interviewed ESA and FECA system officials and examined the internal controls and security over transactions

at the FECA national office and at 2 of FECA's 13 district offices—Washington, D.C., and Kansas City, Missouri.² This analysis included an evaluation of the ADP security procedures at the national office and at the Kansas City district office. We also reviewed documentation associated with ESA's efforts to develop a replacement system and compared the material ADP weaknesses reported by Labor with the specific corrective actions taken or planned. We did not attempt to independently identify the effects of the weaknesses; instead, we relied on several reports issued by Labor's Office of Inspector General and GAO between September 1978 and March 1987, which we have identified as appropriate in this report.

To determine whether additional unreported material weaknesses existed, we considered the results from our work above, and also met with officials from the Air Force, Department of Health and Human Services, and the Postal Service, who are responsible for verifying billings for their agencies. Together, these three organizations account for approximately \$365 million or about 35 percent of the \$1 billion in 1986 FECA payments.

To determine whether ESA has an effective process for identifying and correcting ADP internal control weaknesses, we discussed ESA's process for identifying and tracking its internal control weaknesses with ESA officials. We also spoke with Labor's Director of Information Resources Management, who has oversight responsibility for ensuring that needed corrective actions are incorporated in Labor's ADP systems. Finally, we interviewed the FECA program manager and other ESA officials, as needed, to determine the status of actions already taken or planned that correct previously reported material weaknesses.

Our review was performed between August 1986 and July 1987 in accordance with generally accepted government auditing standards. Chapters 2, 3, and 4 of this report address the progress ESA is making in correcting reported material ADP weaknesses in the FECA program. Chapter 5 describes the steps we took to determine whether additional material ADP weaknesses existed. Chapter 6 addresses ESA's process for identifying and correcting material ADP weaknesses.

²The two FECA district offices at Kansas City and Washington, D.C. were selected judgmentally. Results obtained from this sample were not generalized beyond those offices.

Administrative Controls Over Claims Have Been Strengthened but Could Be Expanded

In its 1983 Financial Integrity Act report, Labor stated that the administrative controls in the FECA program, including those that ensure the accuracy and reasonableness of payments to medical providers, were a material weakness that needed to be improved. The report included Labor's planned corrective actions, which focused on the establishment of (1) a joint review with the Office of Personnel Management to identify procedures for reducing or eliminating dual benefit payments by FECA and the Office of Personnel Management, (2) a suspension and debarment list of fraudulent medical providers to protect the system against providers who had a record of abuse, and (3) an automated medical fee schedule to ensure that claims submitted by medical providers were reasonable. We found that progress has been made in these areas, but that the automated medical fee schedule could be expanded to better ensure that the FECA system is protected against unreasonable or fraudulent medical claims.

Dual Benefit Payments Have Been Reduced

Generally, federal employees or their beneficiaries are not eligible for both FECA payments and Office of Personnel Management federal retirement annuities. In the past, however, dual benefit payments have gone undetected. In 1983, Labor's Inspector General found that some FECA beneficiaries had improperly received federal retirement benefits at the same time that they were receiving FECA benefits. As a result, in its 1983 Financial Integrity Act report, Labor stated that ESA had established procedures for matching payment records with the Office of Personnel Management to identify dual benefit payments.

Since that time, the Office of Workers' Compensation Programs has reduced dual payments through a series of successful automated matches of records with the Office of Personnel Management. In June 1983, the Office of Workers' Compensation Programs and the Office of Personnel Management conducted a computer match to identify those employees or their beneficiaries who were receiving unauthorized dual benefit payments. The Office of Workers' Compensation Programs, as the matching agency, compared social security numbers on FECA's automated compensation payment system files with social security numbers on Office of Personnel Management annuity records. Incorrect FECA payments that were identified through the matches were tracked and collected through the FECA debt collection process. The agencies conducted two more matches, in 1985 and 1986, under an interagency agreement signed in February 1985. The purpose of these matches was to detect, identify, and follow up on payments of prohibited dual benefit payments.

The FECA official who had responsibility for the Workers' Compensation Programs' part of the matches told us that ESA plans to conduct matches every 6 months in the future. Since their inception, the matches have identified over \$1.1 million in FECA payments improperly received by claimants who also received federal retirement annuities. Reduced amounts of duplicate claims were identified in 1985 (the most recent date that figures were available) indicating that the matches are helping ESA to successfully identify and eliminate ineligible FECA beneficiaries.

Suspended and Debarred Medical Providers List Is an Important Internal Control

During 1981 and 1982 hearings of the Permanent Subcommittee on Investigations, Senate investigators testified that three FECA medical providers who had been convicted of fraud had received FECA payments. State medical licensing boards were relying on newspaper articles to identify doctors who had been convicted of abusive practices against government agencies. Both the Senate investigators and Labor's Inspector General determined that more effective suspension and debarment procedures were needed to prevent previously convicted fraudulent medical providers from receiving FECA payments. In its 1983 Financial Integrity Act report, Labor stated that it would establish such procedures to improve its administrative controls.

In July 1984, ESA first established regulations to suspend or debar medical providers. These procedures require any physician, hospital, or provider of medical services or supplies to be excluded from FECA payments if that provider

- has been convicted under any criminal statute for fraudulent activities in connection with any federal or state program that has medical payments similar to those provided by FECA; or
- has been excluded or suspended, or has resigned in lieu of exclusion or suspension, under the above provisions.

To implement the regulation, FECA's national office identifies for exclusion fraudulent or suspended medical providers by examining the Health Care Financing Administration's sanction report, which lists excluded Medicare providers alphabetically by last name. Each FECA district office compares the list of excluded medical providers with its automated list of approved providers for that district.

Labor's Office of Inspector General compared the entire August 5, 1985, list of excluded medical providers with the list of medical providers receiving FECA payments at six FECA offices and found no instances of

excluded providers receiving FECA payments. We selected 20 medical providers from the October 1986 sanction report, plus the 3 unauthorized medical providers cited in the 1981-1982 Senate hearings. Using automated information retrieval and analysis techniques, we compared them to the medical providers receiving FECA payments during chargeback year 1986 and determined these providers had not received payments.

An ESA official said that they plan to expand their list as part of an Executive Order, Executive Order 12549, "Debarment and Suspension," dated February 18, 1986, which directs federal agencies to participate in a governmentwide program for debarment and suspension. Under this order, the debarment or suspension of a participant in a federal assistance or benefit program by one agency will become effective governmentwide, and a central list of excluded participants will be maintained by the General Services Administration. In response to this order and subsequent Office of Management and Budget (OMB) guidance, Labor directed ESA in June 1987 to participate in this program and assist in developing Labor regulations to implement the order.

Automated Medical Fee Schedule Does Not Cover All Medical Payments

Each year between 1983 and 1985, Labor reported that it was working on the establishment of an automated fee schedule as part of its corrective actions to ensure accurate and reasonable payments to FECA medical providers. In June 1986, ESA implemented its automated medical fee schedule, which provides a comparison of fees in the schedule with claims submitted by medical providers to ensure that the charges are reasonable. In its 1986 Financial Integrity Act report, Labor stated that the material weakness had been corrected. According to ESA estimates, from June 1986 through January 1987, use of the schedule had reduced the \$26.9 million in medical fees billed to FECA during that period by about \$1.4 million. We believe that implementation of the fee schedule is an important first step; however, the current schedule only covers services and procedures that comprised less than 50 percent of the payments for 1986.

The medical fee schedule, as currently implemented by FECA, is incomplete—only 6 of the 21 provider types¹ of medical procedures or services authorized by FECA, are included: physicians, physicians who are

¹ESA uses 21 provider-type codes to indicate medical procedures and services authorized for FECA payments, such as physicians' services, hospital patient charges, rehabilitation services, and transportation costs.

not doctors (for example, clinical psychologists), laboratories, x-rays, chiropractors, and therapists. These provider types were chosen, according to a FECA official, because coding related to these types was already available in FECA payment systems for medical procedures and services. Using ESA figures, we calculated that these 6 provider types account for about \$83 million, or 49 percent, of the \$169 million in medical payments for chargeback year 1986. The remaining 15 provider types, including pharmacies and hospitals, are not covered, and payments are made according to the amount billed with no verification of reasonableness; therefore, the reasonableness of fees billed by 15 of the 21 authorized provider types are not evaluated by the FECA automated system. Although not covered by the medical fee schedule, pharmacy and hospital fees account for \$6.6 million and \$64 million, respectively, of FECA medical billings for chargeback year 1986 (or 42 percent).

Recognizing that all provider types are not covered, ESA officials stated that the current fee schedule will have to be carefully monitored to ensure that providers do not attempt to avoid fee limitations by shifting their billings from a provider type code that is covered by the fee schedule to one that is not. Although the Office of Workers' Compensation Programs pointed out in its 1986 medical fee regulations that it would revisit the issue of hospital cost containment, FECA officials explained that they have no plans for expanding the automated fee schedule system since it is difficult to establish fees for billings and account for the prices of the numerous types of prescription drugs and hospital charges.

There may be feasible alternatives that would overcome FECA's difficulties in providing automated coverage to control the other provider types. For example, we found that the Health Care Financing Administration (another agency that makes medical payments to beneficiaries) has implemented controls that may be adaptable to the FECA medical fee schedule. Health Care Financing Administration officials told us that they set limits on certain charges for medical services, such as prescription drug prices for pharmacies and inpatient charges for hospitals under the Medicare and Medicaid programs. The Health Care Financing Administration requires states to establish and maintain automated systems to check the reasonableness of pharmacy billings under the Medicaid programs. The Health Care Financing Administration estimates that its control of prescription drug prices should save about \$270 million over the next 5 years.

To control its hospital costs, the Health Care Financing Administration also controls hospital payments for inpatient services that are billed

through Medicare by using a system known as Diagnosis Related Groups; these groups are sets of diagnoses that are expected to require the same level of hospital resources to treat patients. There are 470 Diagnosis Related Groups and a payment rate is established for each one. Since 1982, the Health Care Financing Administration has maintained and updated these groups and their associated payment rates on an automated system, which claims-payment agents use to pay bills submitted by hospitals. In 1987 we reported that the inflation adjusted growth rate of Medicare hospital costs decreased substantially after the new payment system was implemented and that we believed the new system had played a key role in limiting the increase.²

ESA officials responsible for the medical fee schedule told us that it would be beneficial to study the feasibility of increasing the number of covered provider types. Also, although Labor had reported the medical fee schedule as a completed corrective action in the 1986 Financial Integrity Act report, these officials said that the results of a feasibility study and discussions with Health Care Financing Administration officials about their medical payment controls could result in additional provider types being added to the medical fee schedule.

Conclusions

ESA has made progress in correcting the material weakness related to administrative controls that were identified by Labor in its 1983 and subsequent Financial Integrity Act reports. Computer matches have been conducted with the Office of Personnel Management to identify and reduce unallowable dual benefit payments. In addition, FECA district offices are given lists of medical providers barred from Medicare and Medicaid to exclude from their rolls, and medical fee schedules have been established to provide ceilings for some medical procedures and services.

On the basis of the actions it has taken, Labor reported in 1986 that it had corrected the administrative control material weakness. However, ESA's automated medical fee schedule, an administrative control over FECA medical payments, covers only 6 of FECA's 21 provider types; it does not include hospitals and pharmacies—which comprise about 42 percent of FECA medical payments. Although ESA stated it may be difficult to include additional medical fee limits, such as pharmacy charges and hospitals, including these limits does appear to be feasible because another

²Medicare and Medicaid: Effects of Recent Legislation on Program and Beneficiary Costs, GAO/HRD-87-53, April 8, 1987.

agency—the Health Care Financing Administration—has established fee limits on prescription drugs and inpatient hospital charges. ESA has no plans to determine alternatives to establishing reasonable limits on the costs of the uncovered medical provider types, but said determining an alternative would be beneficial. Without such limits or some alternative internal controls, corrective actions to ensure that claims submitted by medical providers are reasonable will remain incomplete.

Recommendations

We recommend that the Secretary of Labor reopen the closed corrective action with respect to expanding the automated medical fee schedule to include noncovered provider types, such as hospitals and pharmacies, and direct the Assistant Secretary for ESA to determine the feasibility of expanding its automated medical fee schedule to include the currently uncovered provider types, as part of completing this corrective action. The Secretary should continue to report this issue as an open corrective action until appropriate internal controls are implemented.

Agency Comments and Our Evaluation

Labor officials did not concur with this recommendation. (See app. II.) They stated that (1) we had redefined the scope of the material weakness to include additional provider types beyond Labor's interpretation of the deficiency and (2) our suggested solutions were inappropriate. However, as discussed below, Labor had not originally limited the scope of the deficiency to the six provider types included in the current automated fee schedule. Furthermore, our recommendation did not ask Labor to implement the Health Care Financing Administration examples we provided. Rather, we asked Labor to determine the feasibility of expanding its automated medical fee schedule. We provided the examples to show how one agency had implemented automated internal controls over medical payments not covered by FECA's current automated medical fee schedule.

Labor officials stated that the existing medical fee schedule was developed and implemented to correct a specific, narrowly-defined deficiency identified in the FECA program's medical bill payment process, concerning inappropriate billings for physicians' services. Therefore, Labor stated it believes the corrective action was appropriately closed as the originally identified deficiency was resolved.

However, 1982 congressional hearings, related Labor progress reports, and Labor's Financial Integrity Act reports substantiate our definition

of the deficiency as being broader than inappropriate billings for physicians' services, and include a lack of adequate internal controls over payments for other medical procedures and services. For example, during hearings before the Permanent Subcommittee on Investigations in March 1982, the then Deputy Secretary for ESA did not limit the discussion of the deficiency just to inadequate controls over medical payments for physicians' services. Instead, he stated that Labor needed to seek ways to improve controls for other FECA medical payments, such as to hospitals and pharmacies, as well as for physicians' services. ESA progress reports to the Subcommittee subsequent to those hearings also described the need for internal controls over medical payments beyond those covered by the existing medical fee schedule.

An ESA preliminary pilot project described in these reports also substantiates our broader view of the deficiency. This project, which was conducted in San Francisco, documented that screening hospital charges for drugs, intravenous costs, and medical supply costs for inpatient care of FECA claimants resulted in a reported savings of 38 percent in payments. Therefore, we believe the hearings, ESA progress reports, and the pilot project demonstrate our position is correct, and that Labor's interpretation of the deficiency as explained in its response to our draft report includes only a part of the original deficiency first reported as a material weakness by Labor in its 1983 Financial Integrity Act report. In that report, Labor stated that "Controls . . . in the administration of the Federal Employees' Compensation Act must be modified to reasonably assure that payments to medical providers are accurate and timely."

Labor officials cited several reasons why they consider it inappropriate at this time to expand the medical fee schedule to include hospitals and pharmacies and said our examples with respect to the Health Care Financing Administration may not be feasible for the FECA program. Labor concluded that any solution will be difficult and for pharmacies may not be practical. We included the Health Care Financing Administration limits on hospital charges and drug prices as examples of how another agency has established automated internal controls over such payments. We did not propose the use of the Health Care Financing Administration's fee schedule as a solution which Labor should adopt. Our recommendation recognizes the need for Labor to study the feasibility of expanding its automated fee schedule.

Labor officials agreed with us however that more can be done to control FECA medical costs and stated that they are taking actions to control these costs. These actions include: (1) requiring second opinions prior to

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Administrative Controls Over Claims Have
Been Strengthened but Could Be Expanded**

many kinds of surgery; and (2) exploring the use of automated processes to screen the appropriateness of medical procedures for a given claim.

In our opinion, these actions, once implemented, together with the existing fee schedule are important steps towards establishing effective controls over medical bill payments. But, until controls over the rest of FECA's medical bill payments are developed and implemented or shown to be infeasible, the corrective action should remain open.

ESA Procedures Will Not Improve ADP Security Unless Properly Implemented

As a result of previous ESA studies and Inspector General reviews, the Secretary of Labor stated in the 1985 and 1986 Financial Integrity Act reports that ADP security weaknesses might be present in various ESA systems, which included the FECA systems. The Secretary did not identify specific ADP security deficiencies, but instead reported in 1985 that the general "areas of concern are personnel security, physical security, contingency planning, software design and development, and contractor security." As a corrective action, ESA issued an ADP security policy in March 1987, and plans to issue general guidelines for ADP security procedures in December 1987. ESA's internal control officials stated that the guidelines would correct this material weakness by compiling all of the security procedures with which ESA components should comply. These officials said that they believed that the security procedures would serve as a baseline for measuring each component's performance.

However, procedures alone will not correct ADP security weaknesses. While our work did not focus on the adequacy of ADP security procedures, we did identify existing procedures that were not adequately implemented. During our review we found ADP security weaknesses in the areas of computer access controls and security clearances for contractor personnel, even though procedures already existed to prevent these weaknesses from occurring.

ADP Security Has Been a Long-Standing Problem

In 1980 and 1981, Labor's Inspector General assessed the vulnerability of the FECA systems at the request of ESA management and found "a general lack of security consciousness among management and staff in the district offices reviewed."¹ ESA generally agreed with the Inspector General's specific recommendations—which included improving controls over access to case files, providing ADP security training, and improving controls over passwords—and FECA guidance was issued on ADP security in 1981 and 1982 to implement them. The guidance, in the form of FECA circulars and bulletins, was intended to improve controls over ADP security. However, follow-up reviews in 1983 and 1984 by ESA and the Inspector General showed that FECA security procedures implementing the Inspector General recommendations were not always being followed.

The Chairman of the Senate Permanent Subcommittee on Investigations concluded in a July 1983 letter to Labor's Inspector General that FECA

¹Office of Inspector General report, *Loss Vulnerability Assessment of FEC Benefits Payment Program Operations in Six District Offices*, September 1981.

management was not adequately following the Inspector General's recommendations about internal controls over disbursements and computer security and that more needed to be done to ensure that computer security recommendations were followed. ESA's vulnerability assessment in fiscal year 1984 confirmed that ADP security remained an area of concern for all ESA components including FECA. As a result, ESA reported ADP security as a material weakness.

Procedures to Control Unauthorized System Access Have Not Been Followed

OMB and FECA security policies provide that access to information resources be protected from accidental, intentional, or unauthorized modification, destruction, or disclosure. However, we found that at the FECA national office and Kansas City district office, Federal and FECA access control procedures were not being followed. Without applying proper access controls at both the national and district offices, an unauthorized payment could be initiated and processed without detection.

User Identifiers and Passwords Were Improperly Used at FECA Offices

According to Federal Information Processing Standards Publication 83, Guideline on User Authentication Techniques for Computer Network Access Control, September 29, 1980, passwords are used to authenticate the user at a terminal. The publication provides that a unique password should be assigned to each user, that passwords should be carefully protected since they are "critical to system security," and they should be changed periodically. In addition to passwords, this publication further points out that user identifiers are an additional unique code commonly used to provide further user accountability, such as for logging system usage by the user. FECA procedures also contain guidance to ensure that the processing of FECA payments be password protected, that the password be changed monthly, and that it be given only to authorized personnel who have a need to know it.

FECA's national office acquires computer resources from a commercial timesharing service. FECA personnel using this service include FECA employees and contractors. The commercial timesharing service's security procedures, which FECA incorporated into its own security procedures, require that unique user identifiers and passwords be assigned to system users. Users access their respective information resources from pre-assigned terminals using a password and their user identifier.

At the FECA national office, the security manager, contrary to security procedures, assigned common passwords and user identifiers to the contractor personnel working with FECA files to initiate payments. Without

individual passwords and user identifiers for each individual working with these files, individual accountability of computer usage is not possible.

The national office security manager said that the timesharing service was responsible for access controls through its application of a security software package. However, the timesharing service security manager explained that the customer agency, in this case FECA, was responsible for defining and reviewing the use of passwords and user identifiers. Further, in accordance with a FECA circular, FECA security managers have been given responsibility for ensuring compliance with FECA security procedures.

According to the FECA national office security manager, FECA had assigned national office contractor personnel common user identifiers and passwords when they first began working together to test FECA payment systems. At that time, FECA did not want to restrict the access of these contractors because of the nature of their work. FECA continued this practice when these contractors also began to execute production programs. However, as part of the conversion to a new timesharing vendor in April 1987, the new vendor required FECA to assign individual user identifiers and passwords to all FECA employees and contractors accessing the FECA systems. The FECA security manager believed this change should provide increased accountability of computer usage.

To comply with FECA procedures, the Kansas City security manager protects access to the FECA system by pre-approving user identifiers and by assigning passwords to individuals authorized to access the system. These procedures further require that users properly protect their passwords by preventing them from being seen by other persons. We found, however, two employees who had improperly protected their passwords by placing them under the top sheet of their desk calendars, where they could be easily found.

Although the security manager used words randomly selected from the dictionary, he did not properly protect these passwords. They were kept in an unlocked drawer. We also found that unsuccessful attempts to access the payment systems were neither recorded nor reviewed by the security manager. As a result, the system was vulnerable to unauthorized access.

Also, FECA procedures require that access to terminals be controlled. These procedures require district offices to keep terminal assignments

to the minimum needed to perform payment functions and, if possible, to locate these terminals in a secure room. Yet, we found that two terminals in the Kansas City district office, which had the capability to access FECA payment files, were outside the secure area and were being used by other ESA organizational units that were not authorized to access the payment file. When we notified the Kansas City district office manager of these security weaknesses, he agreed to take corrective actions.

Need to Review National Office Report on Unauthorized System Access Attempts

According to Publication 83, repeated unsuccessful access attempts, beyond an allowed limit, such as three to five attempts, should not be ignored and security personnel should be notified. For FECA systems, an unsuccessful access attempt occurs whenever a user enters an incorrect user identifier or password. To protect data resources from unauthorized access, FECA's timesharing service provides a security software package that denies access to users entering incorrect user identifiers or passwords and, if requested, produces a log of unsuccessful access attempts which includes such information as the user identifier, terminal used, and the date and time of day for later review. Also, the software package provides the security manager with the option of discontinuing the terminal connection after a designated number of unsuccessful attempts. These preventive steps could preclude a potential intruder from randomly discovering the right password and user identifier through repeated access attempts.

We found that the security manager for FECA's national office was not following federal guidance or using timesharing service-provided security software to monitor unsuccessful attempts to access the FECA systems. In the 1980 contract with its timesharing service vendor, ESA required the contractor to generate a report of security violations for security review, but since at least November 1985, ESA has not requested that reports be generated.

Furthermore, the FECA national office security manager was not aware of, and did not request, the system-produced access log to check for repeated unsuccessful access attempts. At our request, the timesharing service generated an April 1987 violation report, showing 69 unsuccessful attempts to access the system, which the FECA security manager was unable to explain.

FECA Contractor Personnel Lacked ADP Security Clearances

FECA has over 120 contractor personnel entering and processing FECA payments, as well as maintaining the FECA systems. In addition, at district offices, contract personnel serve as security managers responsible for overall district office security. OMB Circular A-130 points out that proper screening of government employees and contractor personnel, "participating in the design, development, operations, or maintenance of sensitive applications" should be conducted to the extent needed, "depending upon the sensitivity of the information to be handled and the risk and magnitude of loss or harm that could be caused by the individual." In addition, ESA Notice 83-194² provides for three levels of security clearance—critical sensitive, noncritical sensitive, and nonsensitive—and requires that "all positions, including contractor personnel, involved in or associated with the design, storage, retrieval, access or dissemination of information maintained within the Federal computer information systems be reviewed to determine the appropriate type of security clearance needed for the position." Since FECA contractor personnel are involved in entering payment data, maintaining and developing FECA automated systems, and processing FECA payments, they meet these criteria. However, ESA has no assurance that these contractor personnel have received security clearances as required by OMB and ESA guidance.

The Kansas City district office manager said that the four contract employees who enter district data into the FECA district office system do not have security clearances. He said he was unsure whether the maintenance contractor personnel were cleared. ESA officials in Washington, D.C., later confirmed that no FECA national and district contractor personnel were cleared. According to Labor procurement and ESA officials, contractor personnel had previously been bonded, but this practice was discontinued because of budget cuts. As a result, ESA officials did not have any evidence that these contractors were cleared or were in compliance with ESA Notice 83-194.

Conclusions

ESA is planning to establish procedures to correct its ADP security weaknesses, and believes these procedures, together with the March 1987 issuance of ADP security policy, will provide ESA with centralized guidance on ADP security. However, centralized guidance without compliance does not provide appropriate security over ADP systems. The FECA national office and the Kansas City district office have ADP security

²ESA's Office of Management, Administration, and Planning Notice 83-194, "ADP Security Clearances," April 29, 1983.

weaknesses in the areas of access controls and contractor clearances because existing procedures are not being followed. Until these ADP security weaknesses are corrected, FECA systems may be vulnerable to improper access by unauthorized users, which could result in unauthorized or questionable payments, with little likelihood of detection.

Recommendations

The Secretary of Labor should ensure that the Assistant Secretary for ESA provides for adequate internal controls to protect FECA ADP systems and requires that ADP security procedures are followed. As part of this requirement, the Assistant Secretary should ensure that actions are implemented to improve ADP internal controls which include the following:

- Protect system access by providing each authorized FECA user with a unique user identifier and password so that user accountability can be effectively tracked, in accordance with Federal Information Processing Standard Publication 83 and FECA procedures.
- Ensure that the FECA national office and Kansas City district office security managers comply with Publication 83 to monitor unsuccessful attempts to access the FECA system and take corrective actions as necessary.
- Determine and implement the level of security clearances needed for contractor personnel working on FECA systems, in accordance with ESA Notice 83-194.
- Determine whether the specific ADP security weaknesses identified at the FECA national office and the Kansas City district office also exist at other FECA district offices, and if so, correct them.

Agency Comments and Our Evaluation

Labor concurred with our recommendations and provided its plans for addressing them. (See app. II.) Labor, however, did note one problem concerning district office security managers monitoring unsuccessful attempts to access the FECA systems. The district offices' existing systems do not produce an access log that would facilitate this monitoring. Labor said it will examine the feasibility of acquiring or writing software that would provide this capability, but added it may be impractical to implement this feature given the current schedules for replacing the systems. Labor stated, however, that it will address this requirement when developing specifications for the replacement system discussed in the next chapter. We believe this action together with Labor's other planned actions to improve FECA security is, if properly implemented, responsive to our recommendations.

ESA Is Taking Positive Steps to Develop a FECA Replacement System

ESA plans to correct three material ADP weaknesses reported in the 1985 and 1986 Financial Integrity Act reports by replacing FECA's existing systems with a single, integrated automated system. Two earlier attempts, initiated in 1974 and 1978 and costing over \$30 million, to develop a single integrated automated system were unsuccessful. According to our testimony¹ and Labor's Inspector General reports and correspondence, these attempts failed because of ESA's inadequate systems development methodology and contractor oversight. The project office for the Federal Employees' Compensation Data System Enhancement Project, established in 1986 to develop the replacement system, has proposed a staffing level and systems development methodology through which it plans to avoid the problems in the previous FECA replacement attempts. It is too early in the project's development to determine whether the steps taken by this office are adequate to avoid previous audit concerns, but on the basis of our review the project office's proposed approach appears reasonable.

The existing systems were developed as interim systems between 1978 and 1981. There are four existing systems: a system to manage cases, two payment systems for claimant compensation and payments to medical providers, and a system to charge back payments from federal agencies. The three reported material ADP weaknesses and the planned replacement system corrections are as follows:

- The current compensation payment system was reported as improperly accounting for certain transactions, such as withholdings, and payments to separate payees for a single case (for example, child support payments for divorced claimants). ESA's plans for the replacement system include an integrated accounting system to correct these accounting weaknesses. According to Labor's 1985 and 1986 Financial Integrity Act reports, the replacement system will improve accuracy by eliminating data redundancy and substantially automating the processing of medical bills and computation of compensation payments.
- Billings to agencies were prepared by the chargeback system from payment and case management data provided by other FECA systems. These billings were significantly different from the Department of Treasury records of actual FECA payments. When reconciling the 1982 and 1983 chargeback annual totals with Department of Treasury records of payments, Labor's Inspector General found a net undercharge to the billed

¹The Efforts of the Department of Labor to Develop a Computer System to Support the Federal Employees' Compensation Act Program, statement by Phillip A. Bernstein, Deputy Director, Human Resources Division, before the House Subcommittee on Manpower and Housing, Government Operations Committee, April 10, 1979.

agencies of \$1.4 million. ESA has modified the existing chargeback system to partially correct this weakness and plans to integrate chargeback billings with the rest of the replacement system, thereby eliminating the need to reconcile and transfer data from the separate systems.

- According to a 1985 Labor Inspector General report,² the FECA automated debt collection system did not accurately account for interest, penalties, and administrative costs, and was not properly tracking and reporting overpayments as required by the Debt Collection Act of 1982. ESA plans to correct these system limitations in the interim by implementing an Automated Debt Management System, but over the long term plans to include debt collection functions as part of the FECA replacement system.

Previous Efforts to Develop an Automated FECA System Were Unsuccessful

Two earlier attempts, costing more than \$30 million over a 12-year period, to provide the FECA program with a single, integrated, automated system were unsuccessful. As we testified in 1979, the first attempt, during 1974 through 1978, was unsuccessful because of serious programming and coding problems. ESA had not established sufficient management controls over its developmental efforts, such as setting forth the methodology to be followed during the system's development. We further testified that ESA provided little supervision and monitoring to detect outdated and deficient systems documentation developed by the contractor. As a result, ESA was unable to monitor progress and identify and deal with problems that arose during the development of the automated system. Although interim FECA systems were established between 1978 and 1981, ESA realized that a single FECA system was still needed.

Labor's Inspector General found similar problems with the second attempt to replace the interim systems, made during 1978 through May 1986. For example, the Inspector General found that ESA's contractor had not properly defined the system design, and therefore had not met system requirements. In addition, ESA had not provided adequate internal control and security requirements, and had not properly estimated life-cycle costs. The Inspector General concluded that ESA had not provided the replacement attempt with strong project management.³

²Office of Inspector General Report, "Audit to Determine the Existence of an Aggressive Debt Collection System and Compliance with other Provisions of the Debt Collection Act of 1982," December 1985.

³Office of Inspector General Report, "Difficult Decisions Needed for FECS Level II," March 31, 1986.

The current replacement system is scheduled to be operational by fiscal year 1994. Separate contracts are to be awarded for hardware and software development. ESA estimates the system's life-cycle cost at \$32 million over 8 years in 1987 dollars.

Current Development Effort Is Addressing Past Concerns

The replacement system project office, which was established in 1986, is taking steps to address the audit concerns of previous replacement attempts by

- planning to increase the number of computer specialists assigned to the project office, which would reduce the number of contractor personnel reviewed by each specialist, and thereby strengthen Labor's technical oversight of contractor efforts; and
- preparing systems development documentation in accordance with Labor guidance, which provides for system requirements, objectives, alternatives, and related costs and benefits as a means of measuring and documenting system development progress.

The project office, based on Office of Personnel Management regulations and its own internal estimates of a proper government-to-contractor personnel ratio, established computer specialist staffing needs to oversee the contractors. According to the project manager, there is no formal guidance on determining how many government staff are needed to oversee the contractor's efforts, but the project office determined that there should be a ratio of about one government computer specialist for every four contractor personnel to properly oversee and provide adequate technical review to the contractor's efforts.

By applying this ratio to its project office staffing, the project office concluded that it would have to increase the number of computer specialists in the project office from 4 computer specialists—the number of computer specialists overseeing contractors during the previous replacement attempt—to 9 specialists. The project office staffing needs request of 21 staff members including 9 computer specialists was approved by the Department of Labor in July 1987. The project manager will hire the additional staff beginning in fiscal year 1988.

ESA is also taking action to better define its system development methodology. In accordance with system development methodology guidance contained in the Department of Labor's Handbook for Acquisition of Information Technology Resources, dated December 1986, the project

office is preparing separate definition-of-needs statements and technical studies for the replacement system hardware and software.

Conclusions

ESA is planning to correct three outstanding material ADP weaknesses in the areas of accounting for payments, chargeback billings, and debt collection by replacing the existing FECA systems with a single, integrated system. It is too early in this project's development to determine whether project office actions to improve its contractor oversight and systems development methodology will adequately address audit criticisms of previous attempts to automate the FECA system, but on the basis of our review the project office's proposed approach appears reasonable.

GAO Did Not Find Any Additional Unreported Material ADP Weaknesses

During our review, we did not identify any additional material ADP weaknesses that should have been reported by ESA. In assessing whether ESA had unreported material ADP weaknesses, we (1) examined the internal controls and security over FECA transactions at three FECA offices, (2) interviewed officials from several agencies that have FECA claimants and initiate FECA claims, and (3) reviewed ESA's plans to develop a replacement system.

We did not identify additional material ADP weaknesses that had not been reported previously in Labor's Financial Integrity Act reports. For example, the ADP security weaknesses we identified, although not specifically reported by ESA, are included within the broad categories of ADP security weaknesses that were reported. Also, problems in ESA's approach to developing a replacement FECA system were previously reported by Labor's Inspector General. In addition, Labor reported a departmentwide material weakness concerning information resource management, during 1983-1985, including the area of acquiring new systems. ESA's current approach to developing the replacement system should provide for an improved ESA systems development methodology and greater contractor oversight.

Although officials from the three agencies we contacted mentioned difficulties in obtaining timely responses from FECA personnel concerning case information on their employees receiving FECA compensation, FECA replacement system goals address this issue. For example, the replacement system will allow immediate access to more case and payment information, thereby facilitating timely responses to requests.

Additional Actions Can Help ESA Identify and Correct Material ADP Weaknesses

OMB Circular A-123, "Internal Control Systems," August 4, 1986, requires agencies to conduct a risk assessment of their assessable components—as defined by the agency—and perform a detailed review of high-risk components. The circular also provides that needed corrective actions, identified through these evaluations, be implemented on a timely basis. Labor provided further guidance in a September 10, 1986, memorandum concerning its revised internal control program for 1986 to 1988. In compliance with this guidance ESA has implemented a program to identify and correct material weaknesses by: (1) updating the inventory of ESA components; (2) evaluating these components according to risks; and (3) scheduling evaluations for the high-risk components identified in its 1987-1988 management control plan. Although ESA's management evaluation process for identifying and correcting material ADP weaknesses is generally in compliance with Financial Integrity Act guidance, as issued by OMB and Labor, we found that ESA has reported as closed or plans to close material ADP weakness cases before it has verified the effectiveness of the corrective actions. These actions are contrary to OMB Circular A-123 and related Financial Integrity Act guidance.

Also, FECA accountability reviews are an important means for identifying internal control weaknesses and verifying the adequacy of the corrective actions. However, since these reviews are not an integral part of ESA's internal control evaluation process, ESA was not systematically evaluating FECA accountability review results to determine whether material weaknesses existed or corrective actions were being properly implemented. Finally, contrary to FECA accountability review requirements, the ADP portion of these reviews was not conducted at each location that an accountability review was performed. Although, as stated in the previous chapter, we did not identify any unreported material ADP weaknesses, we believe that certain actions by ESA would help to ensure that material ADP weaknesses do not go unreported in future years.

Corrective Actions Were Reported Closed Before Verifying Their Success

Contrary to OMB and related Financial Integrity Act guidance, we found instances of material weakness cases that were either reported as closed or planned for closure before the corrective action was completed and verified effective. ESA officials having internal control oversight responsibility told us that they believed that the initial establishment of the corrective action was sufficient to close the case. In our opinion, without some type of verification, ESA might close material weakness cases before the material weakness is corrected.

According to both OMB Circular A-123 and Labor's September 1986 memorandum implementing the circular, internal control evaluations should include information on the results of tests of internal controls, and corrective actions identified through these evaluations should be implemented in a timely manner. Verification of internal controls is necessary to determine whether they are working as intended. In a November 1986 report,¹ we recommended that material weaknesses be reported until they are substantially corrected. The House Committee on Government Operations, in an August 1986 report,² stated that full and clear disclosure of material weaknesses by agencies is essential to achieve improved internal controls throughout the executive branch. In order to have full and clear disclosure, ESA needs to follow up on the effectiveness of corrective actions before declaring a weakness case closed.

Of the material weaknesses noted in this report, we found that ESA reported one material weakness case closed and plans to report two more closed before verifying that the corrective actions were successful. According to Labor's 1986 Financial Integrity Act report, the weakness related to the lack of a medical fee schedule has been corrected. However, as discussed in chapter 2, the automated medical fee schedule developed by ESA includes only 6 of the 21 provider types and covers only about 49 percent of the annual FECA medical payments in chargeback year 1986. As a result, the medical fee schedule is not controlling a large portion of medical fees. The justification for the FECA replacement system states that the medical fee schedule provides only part of the control needed over medical providers' charges.

ESA internal control officials said that ESA plans to report that its ADP security weaknesses are corrected as soon as new ADP security procedures are issued in December 1987. We believe that until these procedures have been implemented and tested such closure is premature. As discussed in chapter 3, FECA security procedures already exist to prevent the access control weaknesses identified in this report, but they are not being followed. Thus, the existence of procedures, in itself, does not guarantee the correction of a weakness.

¹Integrity Act: Treasury's Annual Reporting Needs Improvement, GAO/IMTEC-87-16, November 26, 1986.

²House Report 99-744, August 5, 1986, Implementing the Federal Managers' Financial Integrity Act—Three Years Later.

Finally, in the 1987 Financial Integrity Act report, ESA plans to report the debt collection material ADP weakness closed on the basis of (1) issuance of a December 22, 1986, FECA bulletin concerning reporting of delinquent debtors to credit bureaus and (2) enhancement of management reports generated by the Automated Debt Management System. However, the new Automated Debt Management System was not planned for implementation until late in 1987. After that it will still need to be verified in operation at the district offices as effectively correcting the material weakness; thus, closure prior to this event would be premature.

ESA officials informed us that they report the closing of material weaknesses as soon as procedures are documented to correct the weakness, since they believe that the establishment of procedures will provide a baseline to measure performance in complying with the procedures. We agree that the establishment of procedures to correct weaknesses provides a baseline against which to measure performance. However, by closing material weakness cases before verifying the effectiveness of those procedures, ESA is not complying with OMB and Labor guidance requiring that agencies ensure that corrections are working as intended. As a result, the weaknesses are no longer being accounted for and tracked in ESA's corrective actions tracking system and annual Financial Integrity Act reports.

FECA's Accountability Reviews Are Not an Integral Part of ESA's Financial Integrity Act Evaluation Process

Labor has chosen accountability reviews as one means for measuring the status of internal controls. However, the results of FECA accountability reviews are not systematically used by ESA internal control officials to identify material weaknesses to be reported under the Financial Integrity Act. By systematically reviewing the results of FECA accountability reviews, ESA would make the most efficient use of its limited internal control staff.

OMB Circular A-123 requires management to annually evaluate its controls to ensure their effective implementation. The circular provides for two types of evaluations:

- internal control reviews using methodology specified in OMB's Internal Control Guidelines, which were developed for agencies to use under the Financial Integrity Act, or
- an alternative review process including management and consulting reviews that determine whether internal controls are operating in compliance with Circular A-123.

According to its 1986 Financial Integrity Act report, Labor relies on a continuous cycle of accountability reviews as part of its alternative review process. Accountability review teams from the FECA national office visited each FECA district office in 1985. Because of budget constraints, only six offices were visited in 1986. FECA Circular 86-8, "FY 1986 FECA Accountability Review Process," December 31, 1985, documents the purpose of FECA accountability reviews as an assessment of the movement by FECA district offices "towards excellence, effectiveness and efficiency in the applications of program policy and established procedures." A separate FECA Accountability Review Manual provides performance standards in terms of making findings and evaluating performance and reporting where deficiencies or problems exist.

FECA accountability reviews are intended to (1) measure and control erroneous payments to individuals and (2) provide a process to identify FECA operations that are either not working or need to be improved—an important intent of the Financial Integrity Act. In a December 4, 1986, summary of fiscal year 1986 accountability reviews, the Director, Office of Workers' Compensation Programs, identified "major system problem areas" in the six FECA district offices reviewed that year. One problem area identified in the summary—untimely and erroneous debt collection practices—provided evidence that a material ADP weakness in a prior year Financial Integrity Act report continues to exist. Another problem area identified was the need for FECA districts to provide better medical evidence to support total or partial disability payments—a problem also raised during congressional hearings before the House Committee on Government Operations in 1982.³

ESA's Office of Management, Administration, and Planning recognizes the importance of FECA accountability reviews. In a March 11, 1985, memorandum to the Director, Office of Workers' Compensation Programs, the Director, Office of Management, Administration, and Planning noted that several of the problem areas identified during a Division of Internal Management Control internal control review had been previously identified during the FECA 1984 accountability reviews. Nevertheless, these reviews are not an integral part of the ESA's Financial Integrity Act evaluation process. Officials of the Office of Management, Administration, and Planning, who are responsible for overseeing and conducting ESA internal control reviews had not seen the above fiscal year 1986 summary until we showed it to them in May 1987.

³House Report 97-399, dated 1981, Twenty-first Report by the Committee on Governmental Operations Together with Additional Views.

According to the above Office of Management, Administration, and Planning officials, they request the results of FECA accountability reviews only when the Office is conducting an internal control review of FECA activities. As a result, ESA is not taking advantage of a potentially valuable process for evaluating internal controls. If systematically included as an integral part of the Financial Integrity Act review process, the accountability reviews can help ESA ensure that (1) major FECA problem areas are identified and evaluated as potential material weaknesses and (2) that proposed corrective actions are implemented.

Accountability Reviews Have Limited ADP Coverage

ADP operations are essential to carrying out the mission of ESA and, in our opinion, if not properly controlled, the potential exists for fraudulent or abusive acts to occur. FECA program officials rely on accountability reviews as a means to ensure that their ADP security and internal controls standards are being met. However, the effectiveness of FECA accountability reviews can be improved by ensuring that all such reviews include coverage of ADP in accordance with FECA accountability review guidance for evaluating ADP internal controls.

In June 1987, the Office of Workers' Compensation Programs evaluated the FECA accountability reviews and found that these reviews did not always include an assessment of ADP security review standards. The office subsequently recommended that adequate staff be obtained to provide ADP coverage at each district office.

During discussions with FECA program officials, we found that FECA accountability review teams are normally composed of five to seven team members, most of whom are former FECA claim examiners. One team member, a former FECA fiscal officer, reviews fiscal operations, ADP operations, and ADP security. However, this member is not scheduled to visit 6 of FECA's 13 district offices during the fiscal year 1987 reviews. As a result, these critical areas will not be covered in 6 districts during fiscal year 1987. According to FECA program officials, the office lacks staff who have the technical expertise to conduct reviews of FECA's ADP and fiscal operations. Thus, these areas are not covered during the review if a member with this expertise is not on the review team.

Conclusions

Material ADP weakness cases were either closed or planned for closure before corrective actions were tested or otherwise verified. Premature closure of these weaknesses could result in optimistic reporting of corrective actions and an incomplete correction of the material weaknesses.

ESA could make better use of its limited resources by making FECA accountability reviews an integral part of its Financial Integrity Act evaluation process. FECA accountability reviews can verify corrective actions and potentially identify future material weaknesses. Also, thorough accountability reviews with adequate ADP coverage would contribute to ESA's verification of corrective actions and reported status of internal controls.

Recommendations

The Secretary of Labor should require the Assistant Secretary for ESA to implement the following actions:

- Ensure that proposed actions to correct material ADP weaknesses are adequate, by verifying their implementation and effectiveness before closing the weakness cases.
- Make efficient use of limited personnel resources by incorporating accountability reviews as an integral part of identifying and correcting material weaknesses, and evaluate systemic weaknesses identified during these reviews as part of the annual Financial Integrity Act review process for possible inclusion in ESA's annual report to the Secretary of Labor.
- Ensure that ADP controls are evaluated as part of each FECA accountability review.

Agency Comments and Our Evaluation

Labor concurred with the above recommendations (see app. II), but took exception with two of the three examples which we used to show that ESA was prematurely closing corrective actions before verifying the effectiveness of these actions. However, we believe our examples concerning the establishment of a medical fee schedule and an Automated Debt Collection Management System appropriately demonstrate prematurely closed cases. Labor stated the corrective action concerning the medical fee schedule was properly closed upon implementation of the current medical fee schedule. However, Labor's 1982 testimony and subsequent progress reports to the Senate Permanent Subcommittee on Investigations and Labor's Financial Integrity Act reports show that the material weakness was not limited to its present interpretation. Our reasons for believing the medical fee schedule has not fully addressed the reported material weakness are presented in chapter 2. (See pp. 18 and 19.)

Labor further stated that the contract for the new Automated Debt Management System is on schedule and hardware is under active procurement, and that leaving this corrective action open for further testing and monitoring would not have been productive, once the actions had been initiated. However, because this system still has not been implemented, the effectiveness of the corrective action cannot be verified. In our opinion, therefore, the material weakness should not be closed until the corrective action is verified.

Request Letter

TCM LANTOS CHAIRMAN, CALIFORNIA
LOUISE M. SLAUGHTER, NEW YORK
BILL GRANT, FLORIDA
MAJOR R. OWENS, NEW YORK
TED WEISS, NEW YORK

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ONE HUNDREDTH CONGRESS
Congress of the United States
House of Representatives
EMPLOYMENT AND HOUSING SUBCOMMITTEE
OF THE
COMMITTEE ON GOVERNMENT OPERATIONS
RAYBURN HOUSE OFFICE BUILDING, ROOM B-349-A
WASHINGTON, DC 20515

April 27, 1987

The Honorable Charles A. Bowsher
Comptroller General
U.S. General Accounting Office
441 G Street, N.W.
Washington, D.C. 20548

Dear Mr. Bowsher:

As part of its oversight responsibilities, the Subcommittee on Employment and Housing has long been concerned with the effectiveness of federal workers' programs. The Federal Employees' Compensation Act (FECA), administered by the Department of Labor's Employment Standards Administration, has been the subject of hearings in the past.

At our request, staff from your Information Management and Technology (IMTEC) Division recently briefed Subcommittee staff on the objectives and scope of work they are conducting concerning FECA automated systems. The basic thrust of the review, to determine whether ESA is effectively identifying, reporting, and correcting material weaknesses in these systems, is highly relevant to this Subcommittee's concerns. We are, therefore, requesting that the review be performed under the auspices of this Subcommittee.

Specifically, we would like you to determine for the FECA system whether:

- ESA is making progress to correct material ADP internal control weaknesses reported by Labor under the Federal Managers' Financial Integrity Act,
- Other material ADP weaknesses exist which ESA has not identified, and
- ESA has an effective process in place to identify and correct ADP internal control weaknesses.

**Appendix I
Request Letter**

The Honorable Charles A. Bowsher
Page 2

In light of the broad congressional interest in this area, your staff, upon notifying this Subcommittee, may brief other interested subcommittees as the review progresses.

Should you have any questions, please contact Stuart Weisberg, the Subcommittee staff director, at 225-6751.

Thank you for your cooperation.

Sincerely,


TOM LANTOS
Chairman


JOSEPH J. DIOGUARDI
Ranking Minority Member

Agency Comments

U.S. Department of Labor

Assistant Secretary for
Employment Standards
Washington, D.C. 20210



OCT 28 1987

Mr. Richard L. Fogel
Assistant Comptroller General
Human Resources Division
U.S. General Accounting Office
Washington, D.C. 20548

Dear Mr. Fogel:

Thank you for the opportunity to review the General Accounting Office draft report entitled: ADP INTERNAL CONTROLS: Actions to Correct System Weaknesses for Federal Employees' Compensation. You will note from the enclosed comments that the Department of Labor concurs with a number of the GAO recommendations. In those instances where the Department does not agree with GAO recommendations, we hope that the comments provided will further clarify and resolve the issues.

I have also enclosed a copy of the draft report with "pen and ink" editorial changes. I hope these will facilitate issuance of the final report.

If you have any questions, please do not hesitate to call me on 523-6191.

Sincerely,

Fred W. Alvarez
Assistant Secretary

Enclosures

General Accounting Office Draft Report
Entitled - ADP Internal Controls:
Actions to Correct System Weaknesses
for Federal Employees' Compensation

GAO Recommendation

"We recommend that the Secretary of Labor reopen the closed corrective action with respect to expanding the automated medical fee schedule to include noncovered provider types, such as hospitals and pharmacies, and direct the Assistant Secretary for ESA to determine the feasibility of expanding its automated medical fee schedule to include the currently uncovered provider types, as part of completing this corrective action. The Secretary should continue to report this issue as an open corrective action until appropriate internal controls are implemented."

Response

The Department does not concur.

Comment

The Federal Employees' Compensation (FEC) Program's medical fee schedule, as presently structured, was developed and implemented in response to a specific, narrowly-defined deficiency identified in the program's medical bill pay process. The Senate Permanent Subcommittee on Investigations (the Roth Committee) discovered that certain physicians (who were also abusing HHS medical support programs) were overcharging for services or, in some cases, charging for service not provided. In analyzing how a medical fee schedule could be applied to control part of this problem, the FEC program decided that it was feasible to expand their schedule beyond the originally contemplated physicians' services schedule to include a total of six medical provider types. This medical fee schedule was implemented in FY 1986 and we believe that the corrective action was appropriately closed as the specific deficiency identified was resolved.

In this context, we also believe that since the originally identified deficiency was resolved, it would be inappropriate to "reopen" the corrective action because GAO wishes to "redefine" the deficiency. If a weakness allowing abuse or waste, previously not identified, exists, then such a deficiency should be identified and documented, and a corrective action or approach recommended.

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We do not believe that any such weakness has been identified or documented. We agree with the GAO that the program should be vigilant in its efforts to better manage FEC medical costs. However, the two examples cited in the GAO draft report as prime candidates for inclusion in an expanded medical fee schedule - hospital services and prescription drugs - may not, at this time, be appropriate for inclusion in the schedule. It should be noted that when the program developed the current fee schedule, these services were evaluated, and the program determined that they could not be included in the medical fee schedule at that time.

There are a number of reasons for this. We recognize the potential value of extending the fee schedule to other types of service, but believe that the experience necessary to adequately define what constitute reasonable fees for hospital services and prescription drugs has not been developed within the Office of Workers' Compensation Programs (OWCP) or other health benefit programs, such as the Health Care Financing Administration. The work currently underway to study the results of implementing Diagnostic Related Groups (DRG) as a means of controlling hospital costs is not complete, nor is it conclusive for our purposes. The chief criticisms that have been levelled at the DRG system are that it does not adequately take age or severity of the condition into account. Also, we believe that there are distinct differences between the populations covered by the FECA and those covered by HCFA, especially as related to age of beneficiaries. Additionally, given the differences in the philosophies underpinning the two programs, application of a DRG approach may be inappropriate and ineffective in the FEC program. The FEC program is obligated, by law, to pay for all appropriate medical expenses related to a claimant's accepted condition. Therefore, application of a DRG mechanism may not yield any savings in the FEC program as services deemed necessary by the physician would be covered. We believe that these differences, as well as the lack of conclusiveness about the efficacy of DRG's as a means of determining reasonable costs, would make any adoption or adaptation of such systems by OWCP very premature.

There are other problems with enforcing "reasonable" cost controls for pharmacy services. The primary one is the inability of OWCP to making binding on the provider the implementation of any fee schedule we might adopt. Pharmacy services are provided overwhelmingly on the basis of a prescription written by an injured worker's attending physician. No advance notice is issued to the pharmacist advising that OWCP has a fee schedule which is binding for services and supplies, as is the case with physicians and therapists. In the latter cases, we issue (in most instances) a CA-16 form, Authorization for Treatment, which details the nature of the services which may be provided and requires the use of the OWCP/HCFA-1500 form for billing purposes. It is the signing of the OWCP 1500 form which binds the physician to accept OWCP's determination of a fee based on our fee schedule. The provider has advance notice of the existence of the schedule and agrees to accept our determination.

Pharmacists are not provided in advance with such forms authorizing dispensation of drugs, nor do they submit their bills on a form obliging them to accept our fee determination. At this juncture, we do not view the implementing of a pharmacy fee schedule as practicable. We are not prepared to make injured workers endure the delays which would result in the securing of prior authorization or billing forms should a prescription be necessary. Moreover, most prescriptions are paid for by the claimant at the time the drugs are dispensed. OWCP reimburses the claimants upon submission of receipts and after evaluating the appropriateness of the prescription in relation to the accepted condition. Should a pharmacist not be familiar with our fee schedule for prescription drugs, or not be willing to comply with the schedule after the fact of payment by the claimant, it would be the injured workers who would bear the costs of our implementing a fee schedule. Again, this runs counter to program policy, which is to reimburse the claimant for the medical charges related to an accepted condition.

While the combined costs of hospital services and pharmacy bills to the OWCP program are considerable, the portion represented by pharmacies is greatly outweighed by hospitals. For these reasons we do not concur in the need for a pharmacy fee schedule. With regard to hospital fees, we intend to monitor the experience of other benefit programs, both government and private. When sufficient information regarding other programs' experience is available, we will make a determination regarding the feasibility of adapting these mechanisms to the FEC program. In any event, we do not envision any fee schedules for additional provider types until the implementation of our new automated data system.

While we have concerns regarding the examples cited in the GAO report as ways of controlling FEC medical costs, we agree that more can be done in this regard, and we are in fact doing a number of things to control costs. For example, the program now requires second opinions prior to many kinds of surgery. Additionally, in developing specifications for the enhanced FEC system, the program will survey the marketplace to determine what, if any, off-the-shelf software packages are available to assist in managing bill payments. Using either off-the-shelf or custom software, automated processes are planned which would screen cases against tables of expected duration of disability for common injuries, ensure that medical procedures are appropriate for the specific condition or diagnosis, ensure that services performed are appropriate for the type of provider submitting the bill, and so on.

GAO Recommendation

"The Secretary of Labor should ensure that the Assistant Secretary for ESA provides for adequate internal controls to protect FECA ADP systems and requires that ADP security

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procedures are followed. As part of this requirement, the Assistant Secretary should ensure that actions are implemented to improve ADP internal controls which include the following:

Protect system access by providing each authorized FECA user with a unique user identifier and password so that user accountability can be effectively tracked, in accordance with Federal Information Processing Standard Publication 83 and FECA procedures;"

Response

The Department concurs.

Comments

We have long recognized the necessity of limiting access to the FEC data system. While all users are assigned unique identifiers at present, we believe that the identifiers must be more secure. To this end, we will tighten our security procedures to require that a user identifier other than the user's initials be assigned to each user by the system manager. In addition, we will examine the programming requirements for unique user passwords to assure that the software is available to all district offices and implement as soon as is practical.

As noted in other parts of the report, the mere existence of procedures does not assure implementation. We propose to make National Office review of ADP security procedures a feature of each accountability review performed in district offices.

GAO Recommendation

"Ensure that the FECA National Office and Kansas City District Office security managers comply with publication 83 to monitor unsuccessful attempts to access the FECA system and take corrective actions as necessary;"

Response

The Department concurs.

Comments

We believe that all district offices should follow the standards established by FIPS publication 83. We believe that OWCP must better define the expectations for ADP system security managers generally and will examine the requirements of publication 83 in light of DOL and ESA policy and procedures in these areas and

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prepare a general release to all program offices. We believe that the program and ESA should have been more diligent in these areas in the past. Bulletins providing criteria for systems managers in the program will be prepared. Additionally, ESA ADP security procedures, about to be issued, call for increased security training for ESA staff, closer monitoring and periodic testing of practices to ensure compliance with FIPS publication 83, and tighter security measures where necessary.

However, with respect to the suggestion that district office security managers monitor unsuccessful attempts to access the FEC system, the Department notes a problem. The system-produced access log cited by GAO was produced by our time-share vendor from the mainframe system. A similar reporting capability does not exist at this time on district office IV Phase systems. The feasibility of acquiring or writing the required software will be examined in the context of the ongoing FEC ADP enhancement effort. It may be impractical to implement such a system given the current schedules for replacing the IV Phase systems. In any event, the Department will address this requirement when developing specifications for the replacement system.

GAO Recommendation

"Determine and implement the level of security clearance needed for contractor personnel working on FECA systems in accordance with ESA Notice 83-194."

Response

The Department concurs.

Comments

Contracts with FEC's two major ADP contractors provide that the contractor will assure that its personnel meet the level of clearances specified in OPM, DOL and ESA requirements. In the past, ESA only required that contractors be bonded as part of their security measures. This provision was dropped in recent years, and further security clearances were not stipulated. ESA is in the process of providing comprehensive guidance in this area. When this guidance is available, FEC's two contractors' personnel will be brought into compliance. Future ADP service contracts will require appropriate security clearances and these requirements will be enforced as part of contract performance oversight.

GAO Recommendation

"Determine whether the specific ADP security weaknesses

identified at FECA National Office and the Kansas City District Office also exist at other FECA district offices, and if so, correct them."

Response

The Department concurs.

Comment

As noted above, OWCP intends to review all district offices' ADP security procedures as part of its accountability review process. The requirements for the systems will be reviewed in light of additional guidance to be provided in follow-up corrective actions to the GAO findings and significant changes will be incorporated into the FEC Accountability Review Manual. Deficiencies, when found, will be made part of required corrective actions and monitored for completion as part of the Quarterly Review and Analysis process. Additionally, as discussed above, ADP security procedures will be implemented to resolve any weaknesses identified, increase ADP security training for ESA staff, and ensure full compliance with FIPS publication 83 requirements.

GAO Recommendations

"The Secretary of Labor should require the Assistant Secretary for ESA to implement the following actions:

Ensure that proposed actions to correct material ADP weaknesses are adequate, by testing or otherwise verifying them through follow-up reviews, before closing the weakness cases;"

Response

The Department concurs.

Comment

The Department believes that verification that corrective actions have been implemented is appropriate. However, with respect to the examples cited in the draft report, some comments are in order. The GAO report cites only two examples of proposed actions that they believe were closed before the actions were adequate: the extension of the fee schedule, and the securing of additional ADP resources to manage the debt recovery system. The Department is monitoring developments relating to medical fee schedules to determine if such expansion of coverage of the

schedules is appropriate in the FEC system. However, as discussed above, ESA believes that the identified deficiency was resolved and therefore properly closed upon implementation of the current medical fee schedule.

The procurement of additional ADP resources for management of FEC debt accounts was implemented timely and consistent with announced corrective action plans. The contract is on schedule and hardware is under active procurement. We believe that leaving this corrective action open for further testing and monitoring would not have been productive, once the actions had been initiated.

GAO Recommendation

"Make efficient use of limited personnel resources by incorporating accountability reviews as an integral part of identifying and correcting material weaknesses, and evaluate systemic weaknesses identified during these reviews as part of annual Financial Integrity Act review process for possible inclusion in ESA's annual report to the Secretary of Labor;"

Response

The Department concurs.

Comment

OWCP will return to full review of the district offices' compliance with ADP security requirements as part of its accountability review process. The findings of the review teams, as appropriate, will be incorporated into the annual Financial Integrity Act review process. OWCP will consider involving additional personnel familiar with the ADP security requirements of ESA and the Financial Integrity Act as an integral part of its district office accountability review process in hopes of maximizing the use of ESA resources. As noted above, implementation of ADP security procedures and ESA ADP Security plans will enhance these efforts by training ESA staff and providing better guidance regarding ADP security matters.

GAO Recommendation

"Ensure that ADP controls are evaluated as part of each FECA accountability review."

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Response

The Department concurs.

Comment

See the discussion of the recommendation directly above.

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